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TO RUEHC/SECSTATE WASHDC 6160
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RUEHBJ/AMEMBASSY BEIJING 1446
RUEHBY/AMEMBASSY CANBERRA 0337
RUEHKA/AMEMBASSY DHAKA 4556
RUEHLO/AMEMBASSY LONDON 1956
RUEHNE/AMEMBASSY NEW DELHI 3885
RUEHUL/AMEMBASSY SEOUL 7432
RUEHKO/AMEMBASSY TOKYO 4984
RUEATRS/DEPT OF TREASURY WASHDC

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SIPDIS

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SUBJECT: BURMA'S GAS EXPORTS FUEL A RECORD TRADE SURPLUS

¶1. (U) Summary: Burma's total trade reached approximately \$8 billion in 2006-07, a record high. The country's rich natural resources, especially natural gas, dominated exports, while domestic fuel demand made diesel the top import. Government-owned enterprises dominated both sectors, controlling two thirds of exports and over a third of imports during the last fiscal year. Burma's major trading partners were Thailand, China, and Singapore. The GOB achieved recent trade surpluses by restricting imports, controlling lucrative sectors, exporting natural resources, while hobbling private sector efforts to grow. End summary.

¶2. (U) At the start of the fiscal year in April 2006, GOB officials projected that Burma's foreign trade volume would reach \$7 billion in 2006-07. A Commerce Ministry report quoted in the local press on May 21 listed Burma's exports, led by natural gas, at \$5.01 billion, and imports at \$2.92 billion, totaling \$7.93 billion in overall trade. This represents a 43% increase over last fiscal year's official performance of \$5.54 billion, and a record high since the regime took power in 1989. A local private research company Business Information Group (B.I.G.) estimated that foreign trade was slightly higher, at \$8.29 billion. B.I.G. uses figures from Customs officials, who report actual trade figures, whereas Commerce officials use totals listed on licenses they issue.

RESOURCES OUT, MUCH LESS IN

¶3. (SBU) Another Customs report stated that the Myanmar Oil and Gas Enterprise (MOGE) earned \$2.16 billion in fiscal year 2006-07, more than double the 2005-06 figure. MOGE revenues, divided with international partners, came mostly from natural gas exports to Thailand. An Energy official was quoted as saying last year's increase came not from greater volume, but from higher prices for gas exports. One industry source, however, refuted the claims of a 100% revenue increase from gas exports. He said the volume of gas exported was up about 5% and revenues rose only about 15% in calendar year 2006.

¶4. (U) Other top exporters include Myanmar Timber Enterprise (which earned \$519 million), Myanma Gems Enterprise (\$296.6 million), Myanmar Ivanhoe Copper, a joint Canadian - Ministry of Mines venture (\$106.6 million), and Htoo Trading, owned by crony Tay Za and involved heavily in timber and construction industries (\$65.1

million). State enterprises generated 61% of export income.

15. (U) The private sector accounted for 64% of all imports, but most importers are small and only one private firm, Rothmans of Pall Mall, was among the top importers. The leading state-owned importer, Myanmar Petrochemical, brought in \$676.3 million in diesel and petroleum products for domestic consumption. MOGE was second with equipment imports to support the oil and gas industry. The U.S. Embassy is listed as the country's tenth largest importer (\$20.7 million), thanks to materials imported for construction of the new embassy compound.

16. (U) According to B.I.G, Burma's primary export products were natural gas, agricultural products, timber and forest products, precious and semiprecious stones, marine products, textiles and garments, mineral products, and animal products. Major imports include diesel and oil, machine parts, steel, iron, cars, food and beverages, plastic, medicines, palm oil, cement, and tires.

17. (U) The Commerce Ministry report lists Thailand as Burma's top trading partner with \$2.66 billion in bilateral trade, followed by China (\$1.27 billion), Singapore (\$1.22 billion), and India (\$895 million). Thailand, India, Hong Kong and China are the top export markets. Singapore, China and Thailand are leading sources of imports.

BORDER TRADE REACHES \$1 BILLION

18. (SBU) The overall figures include border trade transactions. Most border trade has traditionally been

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conducted outside the banking system. According to a Department of Border Trade (DBT) official and several business sources, authorities plan to normalize border trade at all eleven border crossing points by conducting transactions with Letters of Credit (LCs) and electronic transfers. DBT officials and business contacts said that some transactions for container-sized shipments now go through the formal banking sector. One businessman told us that, despite Burmese urging to formalize trade, Chinese trading partners are reluctant to conduct business through banks, fearing the effect of Burma sanctions on their relationships with American banks.

19. (U) Although no official statistics for border trade exist, the Weekly Eleven journal, quoting a Ministry of Commerce source, released border trade figures for 2006-07. These figures do not include the significant amount of black market trade that flows across Burma's porous borders.

	Export	Import	(US\$ million) Total Trade
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Burma - China	423	298	721
Burma - Thailand	160	88	248
Burma - Bangladesh	24	1	25
Burma - India	11	6	17
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Total	618	393	1,011

TRADE SURPLUS DOES NOT MEAN A BOOMING ECONOMY

110. (U) The government attributed the \$2.09 billion trade surplus to its "export first" policy. Importers must prove they have earned an equivalent amount from exports before they can receive an import permit. The government-run Central Statistics Organization's (CSO) figures for 2005-06 show trade volume of \$5.54 billion, with \$1.57 surplus, and in 2004-05 trade volume of \$4.90 billion, with \$935 million surplus. IMF figures from Article IV consultations for import and export totals closely track those published by CSO, while B.I.G. figures are approximately 10% higher.

¶11. (SBU) In February, Economic Minister Soe Tha claimed that Burma's trade surplus indicated that the country's economy was booming. Senior local economists disagree. They note that Burma exports natural resources, not commercial, manufactured or industrial goods, and Burma does not import capital inputs to develop productive industries. Moreover, the GOB's "export first" restrictions on import permits guarantee a trade surplus because import volume can not exceed export volume.

¶12. (U) Government restrictions keep the private sector from starting or expanding potentially successful import or export businesses. One contact described some of the most challenging difficulties faced by private business representatives who are not among the crony elite: the government won't issue import permits for advanced machinery; issuance of export permits is unpredictable and slow; official permission to travel for training abroad is rarely given; no reliable power, communications or transport infrastructure exists in the country; the government controls the most lucrative sectors; currency depreciation coupled with bureaucratic delays make pricing difficult; and the unattractive business climate keeps potential international partners away.

¶13. (SBU) Comment: These trade figures reveal how revenues from export of Burma's resources keep the generals rich and in power. Sadly, little trickles down to the people. The regime's efforts to maximize export earnings include stifling development of the country's manufacturing, industrial or service sectors. Burma suffers the resource curse. End Comment.